

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**UNIVERSITY OF CALIFORNIA,
SAN DIEGO, DID NOT ALWAYS CLAIM
NONPAYROLL ADMINISTRATIVE AND
CLERICAL COSTS CHARGED DIRECTLY
TO HHS AWARDS IN ACCORDANCE
WITH FEDERAL REGULATIONS**

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Office of Inspector General

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

EXECUTIVE SUMMARY

The University of California, San Diego, did not always claim reimbursement for nonpayroll administrative and clerical costs charged directly to HHS awards in accordance with Federal regulations and applicable guidelines. We estimated that the University claimed at least \$202,000 in unallowable costs for a 2-year period.

WHY WE DID THIS REVIEW

The Department of Health and Human Services (HHS) award administration rules require recipients of awards to ensure that costs charged to those awards are allowable under applicable Federal regulations. The University of California, San Diego (the University), received significant funding from HHS awards, including funding from the American Recovery and Reinvestment Act (Recovery Act). In fiscal year 2010, the University received \$485.9 million from HHS awards and \$73.4 million from the Recovery Act. This review of the University's nonpayroll costs is part of a series of Office of Inspector General reviews to determine whether selected colleges and universities claimed administrative and clerical costs in accordance with Federal requirements. We issued a separate report on our review of the University's payroll costs charged directly to HHS awards (report number A-09-12-01001).

Our objective was to determine whether the University claimed reimbursement for nonpayroll administrative and clerical costs charged directly to HHS awards in accordance with Federal regulations and applicable guidelines.

BACKGROUND

By accepting HHS awards, the University agreed to comply with regulations governing the use of Federal funds and to ensure that costs charged to those awards were allowable under the cost principles established in 2 CFR part 220, Appendix A. The costs charged to Federal awards must be supported with adequate documentation. In addition, the regulations governing the allowability of direct costs charged to Federal grants, contracts, and other agreements require that, to be allowable, a direct cost must be reasonable, be allocable, be treated consistently, and conform to any limitations or exclusions set forth in the cost principles.

The regulations state that costs incurred for the same purpose in like circumstances are treated consistently as either direct or facilities and administrative (F&A) costs. Direct costs are incurred solely for the performance of a specific project, whereas F&A costs are indirect expenses that are incurred for common or joint objectives of the institution and therefore cannot be readily and specifically identified with a particular project or projects. The regulations also state that administrative and clerical costs should normally be treated as F&A costs.

The University, located in La Jolla, California, is a publicly funded institution of higher education and 1 of the 10 campuses of the University of California system. Nonpayroll administrative and clerical costs are generally recorded in the University's financial system under the account category "Supplies and Expenses."

HOW WE CONDUCTED THIS REVIEW

Our review covered nonpayroll administrative and clerical costs of \$26.9 million claimed by the University from October 1, 2008, through September 30, 2010. We limited our review to nonpayroll administrative and clerical costs charged as direct costs to grants, contracts, and other agreements between the University and components of HHS, including the National Institutes of Health and the Public Health Service. We reviewed a stratified random sample of 142 nonpayroll administrative and clerical transactions.

WHAT WE FOUND

The University did not always claim reimbursement for nonpayroll administrative and clerical costs charged directly to HHS awards in accordance with Federal regulations and applicable guidelines. Of the 142 sample transactions, 125 were allowable. However, 17 sample transactions, totaling \$56,375, were not allowable. Specifically, the University claimed (1) costs for temporary employees that were not adequately supported, (2) costs for goods and services that were not allocable to the HHS awards, (3) office supply costs that were improperly charged as direct costs, and (4) excess F&A costs for a capital expenditure misclassified as maintenance and repairs. In addition, the University claimed \$26,210 of unallowable F&A costs related to the unallowable direct nonpayroll costs.

The University claimed unallowable costs because it did not always provide adequate oversight of nonpayroll administrative and clerical costs charged directly by departments to HHS awards to ensure compliance with Federal regulations. On the basis of our sample results, we estimated that the University claimed at least \$202,401 in unallowable costs, consisting of \$148,803 in unallowable nonpayroll costs and \$53,598 in unallowable F&A costs related to the unallowable direct costs and the misclassification of a capital expenditure as maintenance and repairs.

WHAT WE RECOMMEND

We recommend that the University:

- refund \$202,401 to the Federal Government,
- reclassify maintenance and repair costs as a capital expenditure, and
- enhance oversight of nonpayroll administrative and clerical costs charged directly to HHS awards to ensure compliance with Federal regulations.

UNIVERSITY COMMENTS AND OUR RESPONSE

In written comments on our draft report, the University concurred with our second and third recommendations and provided information on actions that it had taken or planned to take to address our recommendations. Regarding our first recommendation, the University concurred with our disallowances of eight sample transactions totaling \$27,519 and provided information on actions that it had taken or planned to take to refund the amounts associated with the sample

transactions and the related F&A costs. However, the University did not explicitly address our estimated total refund amount.

Regarding our finding that the costs claimed for temporary employees were not adequately supported, the University did not concur with our disallowances of 10 sample transactions and provided additional explanation and documentation. After reviewing supplemental information and documentation provided by the University, we allowed one of these transactions, which reduced the total number of unallowable nonpayroll transactions from 18 to 17. Accordingly, we reduced our estimate of unallowable costs to \$202,401. However, the additional information provided by the University for the remaining unallowable transactions did not constitute sufficient documentation for us to conclude that the questioned costs were allowable.